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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69551; File No. SR-BOX-2013-25)

May 9, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend BOX Rules 5050, 7050, and 7240

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 8, 2013, BOX Options Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend BOX Rules 5050(e) (Jumbo SPY Options), 7050 (Minimum Trading Increments) and 7240 (Complex Orders). The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxexchange.com>.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange received approval to list and trade option contracts overlying 1,000 shares of the SPDR<sup>®</sup> S&P<sup>®</sup> 500 Exchange-Traded Fund (“SPY”)<sup>3</sup> or (“Jumbo SPY Options”).<sup>4</sup> Whereas standard options contracts represent a deliverable of 100 shares of an underlying security, this product represents 1,000 SPY shares. Except for the difference in the number of deliverable shares, Jumbo SPY Options have the same terms and contract characteristics as regular-sized options contracts (“standard options”), including exercise style. Accordingly, the Commission noted in the approval order that the Exchange’s rules that apply to the trading of standard options would apply to Jumbo SPY Options as well.<sup>5</sup> Prior to the launch of these non-standard contracts, the Exchange proposes to amend the BOX Rules to 1) permit the minimum trading increment for Jumbo SPY Options to be the same as the minimum trading increment permitted for standard SPY options, 2) codify the minimum contract threshold requirement for the execution of Jumbo SPY Options in the Exchange’s Facilitation and Solicitation Auctions, 3) provide that while Participants may execute complex orders involving Jumbo SPY Options, if any leg of a complex order is a Jumbo SPY Option, all

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<sup>3</sup> “SPDR<sup>®</sup>,” “Standard & Poor’s<sup>®</sup>,” “S&P<sup>®</sup>,” “S&P 500<sup>®</sup>,” and “Standard & Poor’s 500” are registered trademarks of Standard & Poor’s Financial Services LLC. The SPY ETF represents ownership in the SPDR S&P 500 Trust, a unit investment trust that generally corresponds to the price and yield performance of the SPDR S&P 500 Index.

<sup>4</sup> See Securities Exchange Act Release No. 69511 (May 03, 2013), 78 FR 27271 (May 9, 2013) (Order Approving SR-BOX-2013-06).

<sup>5</sup> Id.

options legs of such orders must also be Jumbo SPY Options<sup>6</sup> and 4) clarify the eligibility of Jumbo SPY Options in the Price Improvement Period “PIP”, as well as the market maker appointments and quoting obligations for Jumbo SPY Options. The Exchange notes that this filing is based on similar proposals filed by BOX as part of the launch of “Mini Options,” which are non-standard option contracts overlying 10 shares of a security.<sup>7</sup>

### Minimum Price Variation

First, the Exchange proposes to amend BOX Rule 5050(e) (Jumbo SPY Options) and 7050 (Minimum Trading Increments) to permit the minimum trading increment for Jumbo SPY to be the same as the minimum trading increment permitted for standard SPY options.

Currently, the Exchange is only approved to list Jumbo SPY Options and standard SPY options are part of the Exchange’s Penny Pilot Program.<sup>8</sup> Under the Penny Pilot Program, with the exception of three classes,<sup>9</sup> the minimum price variation for all participating options classes is \$0.01 for all quotations in options series that are quoted at less than \$3 per contract and \$0.05

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<sup>6</sup> Id.

<sup>7</sup> See Securities Exchange Act Release Nos. 69154 (March 15, 2013), 78 FR 17741 (March 22, 2013) (Notice of Filing and Immediate Effectiveness of SR-BOX-2013-14); 69240 (March 26, 2013), 78 FR 19562 (April 1, 2013) (Notice of Filing and Immediate Effectiveness of SR-BOX-2013-18) and 69512 (May 3, 2013) (Notice of Filing and Immediate Effectiveness of SR-BOX-2013-23).

<sup>8</sup> The Penny Pilot Program has been in effect on the Exchange since its inception in May 2012. See Securities Exchange Act Release Nos. 66871 (April 27, 2012) 77 FR 26323 (May 3, 2012) (File No.10–206, In the Matter of the Application of BOX Options Exchange LLC for Registration as a National Securities Exchange Findings, Opinion, and Order of the Commission), and 67328 (June 29, 2012) 77 FR 40123 (July 6, 2012) (SR-BOX-2012-007). The Penny Pilot has been extended and is currently in place through June 30, 2013. See Securities Exchange Act Release No. 68425 (December 13, 2012), 77 FR 75234 (December 19, 2012) (Notice of Filing and Immediate Effectiveness of SR-BOX-2012-021).

<sup>9</sup> The three classes are the Nasdaq-100 Index Tracking Stock (“QQQQ”), the SPDR S&P 500 ETF (“SPY”) and the iShares Russell 2000 Index Fund (“IWM”). QQQQ, SPY and IWM are quoted in \$0.01 increments for all options series.

for all quotations in options series that are quoted at \$3 per contract or greater. The minimum trading increment for standard SPY options, which is not subject to a price test, is \$0.01 across all option series. In the absence of the Penny Pilot Program the minimum price increment would be \$0.05 for quotations in options series that were quoted at less than \$3 per contract and \$0.10 for quotations in options series that were quoted at \$3 per contract or greater.

This proposed rule change will permit the minimum trading increment for Jumbo SPY to be identical to the minimum trading increment applicable to standard options on SPY. The Exchange believes having different trading increments for Jumbo SPY than those permitted for standard options on SPY would be detrimental to the success of this new product offering and would also lead to investor confusion.

The Exchange notes that in limiting Jumbo options to only Jumbo SPY Options; the Exchange selected an underlying security with a high price and extremely liquid options market. Jumbo SPY Options are a natural extension to the options overlying SPY and therefore should retain the most important characteristic, i.e., trading increments. The Exchange believes that by reducing the minimum trading increments for Jumbo SPY Options to \$0.01, the proposed rule change will provide market participants with meaningful trading opportunities in this product. Further, quoting and trading in \$0.01 increments will enable market participants to trade Jumbo SPY Options with greater precision as to price. Providing these more refined increments will permit the Exchange's Market Makers the opportunity to provide better fills (meaning less spread than the current wider minimum increments rules allow) to customers. Therefore, the Exchange proposes to amend its rules to permit the listing and trading of Jumbo SPY Options [sic] \$0.01 increments, the same increment permitted for standard options on SPY. However, the Exchange notes even though this proposed rule change would permit the

trading of Jumbo SPY Options in narrower increments, they would not be considered part of the Penny Pilot Program.

The Exchange's proposal to quote and trade certain option classes that are outside of the Penny Pilot Program in \$0.01 increments is not novel. Specifically, the Commission recently permitted BOX and other exchanges to set the minimum price variation for Mini Option as the same as standard options on the same underlying security.<sup>10</sup>

In support of this proposed rule change, the Exchange proposes to amend BOX Rules 7050 and 5050(e). In Rule 7050, the Exchange proposes to add new subsection (d) to provide that the minimum trading increment for Jumbo SPY Options shall be determined in accordance with new subsection (4) to Rule 5050(e). Proposed subsection (4) to Rule 5050(e) will provide that the minimum trading increment for Jumbo SPY Options shall be the same as the minimum trading increment permitted for standard options on SPY.

With regard to the impact of this proposal on system capacity, the Exchange represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with this proposal. The Exchange does not believe that this increased traffic will become unmanageable since Jumbo SPY Options are limited to a single underlying security.

#### Facilitation and Solicitation Auctions

The Exchange proposes to amend Rule 5050(e) (Jumbo SPY Options) to codify the minimum contract threshold requirement for the execution of Jumbo SPY Options in the Exchange's Facilitation and Solicitation Auctions. The Facilitation Auction is a process by which an OFP can attempt to execute a transaction wherein the OFP seeks to facilitate a block-

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<sup>10</sup> See supra, notes 4 and 6 [sic].

size order it represents as agent (“Agency Order”), and/or a transaction wherein the OFP solicited interest to execute against an Agency Order. OFPs must be willing to execute the entire size of Agency Orders entered into the Facilitation Auction through the submission of a contra “Facilitation Order”.<sup>11</sup> Block-size orders are orders for fifty (50) or more contracts.<sup>12</sup> The Solicitation Auction is a process by which an OFP can attempt to execute orders of 500 or more contracts it represents as agent (the “Agency Order”) against contra orders that it has solicited (“Solicited Order”).<sup>13</sup> Each Agency Order entered into the Solicitation Auction shall be all-or-none. The minimum contract threshold required for the Facilitation Auction and the Solicitation Auction applies to option contracts that overlie 100 shares and therefore does not currently apply to Jumbo options.

The Exchange proposes to add a new subsection (5) to Rule 5050(e) to adjust the minimum contract threshold for executing Jumbo SPY Options in the Facilitation Auction and Solicitation Auction to 1/10<sup>th</sup> their current requirement. Thus, Jumbo SPY Options executed in the Facilitation Auction must be for five (5) or more Jumbo option contracts, and Jumbo SPY Options executed in the Solicitation Auction must be for fifty (50) or more Jumbo Option contracts.

The Exchange believes it is appropriate to adjust the minimum contract threshold for Jumbo SPY Options so they are equivalent (same number of underlying securities) to the minimum contract threshold required for standard options that are executed in the Facilitation and Solicitation Auctions. The Exchange believes that adjusting the minimum contract

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<sup>11</sup> See BOX Rule 7270(a).

<sup>12</sup> See IM-7270-2.

<sup>13</sup> See BOX Rule 7270(b).

threshold will remove any confusion on the part of market participants that want to use these Exchange functionalities to execute Jumbo SPY Options.

### Complex Orders

The Exchange proposes to amend Rule 7240 (Complex Orders) to provide that while Participants may execute Complex Orders involving Jumbo SPY Options, if any leg of a complex order is a Jumbo SPY Option, all options legs of such orders must also be in Jumbo SPY Option.<sup>14</sup>

### Other

The Exchange represents that Market Maker appointments for Jumbo SPY Options will be done in compliance with existing Exchange rules.<sup>15</sup> The Exchange also proposes to clarify that for Market Maker quoting obligation purposes Jumbo SPY Options will not be combined with standard SPY options. In addition, Jumbo SPY Options will be eligible to trade on the Exchange's PIP auction.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>16</sup> in general, and Section 6(b)(5) of the Act,<sup>17</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and

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<sup>14</sup> See Securities Exchange Act Release No. 69419 (April 19, 2013), 78 FR 24449 (April 25, 2013) (Approval Order of SR-BOX-2013-01). The Exchange launched its Complex Order Book on May 3, 2013.

<sup>15</sup> See BOX Rule 8030(a).

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

#### Minimum Price Variation

In particular, the proposed rule change will assure that Mini, Jumbo and standard SPY options will trade in similar increments, providing market participants meaningful trading opportunities and enabling them to trade Jumbo SPY Options with greater precision as to price. The Exchange also believes that allowing Mini, standard and Jumbo SPY options to trade in similar increments will avoid investor confusion. The Exchange further believes that investors and other market participants will benefit from this proposed rule change because it clarifies and establishes the minimum trading increment for Jumbo SPY Options prior to the commencement of trading. The Exchange believes that investors generally will be expecting the minimum trading increment for Jumbo SPY Options to be the same as the minimum trading increment for Mini and standard options on SPY. This proposed rule change will therefore lessen investor confusion because Jumbo SPY Options, Mini and standard SPY options will all have the same minimum trading increment.

#### Facilitation Auction and Solicitation Auction

The proposed rule change will assure that standard options and Jumbo Options on the same underlying security will have an equivalent minimum contract threshold for the execution of orders in the Exchange's Facilitation Auction and Solicitation Auction. The Exchange believes the proposed rule change will avoid investor confusion because in the absence of this proposal, the minimum contract threshold for executing Jumbo SPY Options in either the Facilitation Auction or the Solicitation Auction would not be equivalent than [sic] that for

standard options (i.e., different number of underlying securities). The Exchange does not intend for Jumbo SPY Options and standard options to have different minimum contract threshold requirements for its various auctions executed on the Exchange. The Exchange further believes that investors and other market participants will benefit from this proposed rule change because it clarifies and establishes the minimum contract threshold for executing Jumbo SPY Options in the Facilitation and Solicitation Auctions. The Exchange believes that investors generally will be expecting the minimum contract threshold for Jumbo SPY Options to be equivalent to the minimum contract threshold for standard SPY options. This proposed rule change will therefore lessen investor confusion.

#### Complex Orders

The Exchange believes that investors and other market participants would benefit from the current proposal to amend the Complex Orders rules because it provides that market participants may take advantage of legitimate investment strategies and execute complex orders involving Jumbo SPY Options. Additionally, the Exchange believes the proposed rule change will help avoid investor confusion, by providing how Jumbo SPY Options will trade as compared to standard options with respect to Complex Orders.

The Exchange's proposal to permit Jumbo SPY Options to trade as Complex Orders provided the strategy does not combine Jumbo SPY Options and standard SPY options serves to maintain the permissible ratios that are applicable to Complex Orders by separating the trading of standard option Complex Orders and Jumbo SPY Option Complex Orders.

Finally, the Exchange believes that the proposed rule change is not designed to permit unfair discrimination among market participants as all market participants may participate in complex orders involving Jumbo SPY Options.

## Other

The Exchange believes that it is appropriate to clarify how Jumbo SPY Options will be treated for purposes of a Market Maker's assignment and quoting obligations, as well as if this new product is eligible to trade on the PIP auction. Doing so provides investors and other market participants with a clear and accurate understanding of the Exchange's rules regarding Jumbo SPY Options. By submitting this proposal the Exchange is eliminating any potential confusion about how Jumbo SPY Options will be listed and traded. In particular, the Exchange believes that allowing Jumbo SPY Options to be eligible for the PIP auction may increase the frequency with which Options Participants initiate a PIP Order, which may result in greater opportunity for price improvement for customers. Further, the Exchange believes it is appropriate for Market Maker assignments in Jumbo SPY Options to be in compliance with existing Exchange rules, and to not combine Jumbo SPY Options with standard SPY options in determining Market Maker quoting obligations. This is the same approach that the Exchange took to Mini Options and doing this will lessen investor confusion on this new product.

### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange believes that investors would benefit from the introduction and availability of Jumbo SPY by making options on large blocks of the SPY ETF more available as an investing tool, particularly for institutional investors. Trading in Jumbo SPY Options is entirely voluntary and Participants can determine if they would like to trade in this new product. The Exchange believes this proposed rule change is necessary to establish uniform rules regarding minimum trading increments, minimum contract thresholds, and complex orders for the listing and trading of Jumbo SPY

Options, a new options product. This proposal is also designed to promote investor certainty by clarifying if Jumbo SPY Options will be able to trade on the PIP, as well as the assignment and quoting obligations for Jumbo SPY Options.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>18</sup> and Rule 19b-4(f)(6) thereunder.<sup>19</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay so that the proposed rule change may become operative before the anticipated launch of trading in Jumbo SPY Options. The Commission believes that waiving the 30-day operative delay is

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has fulfilled this requirement.

consistent with the protection of investors and the public interest.<sup>20</sup> Waiver of the operative delay will allow the Exchange to implement its proposal consistent with the anticipated commencement of trading in Jumbo SPY Options on May 10, 2013. For these reasons, the Commission designates the proposed rule change as operative upon filing.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2013-25 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2013-25. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

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<sup>20</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2013-25 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).